COR/QAE Fraud Awareness Training (Contingency)

Oct 2008

Fraud Facts

- Fraud: Misrepresentation of a material fact with the intent to deceive
  - Can be a single act or combination of circumstances
  - Can be the suppression of truth or the suggestion of what is false
  - May occur by direct falsehood, by innuendo, by speech, by silence, by word of mouth or by look or gesture

- Most important element in fight against procurement fraud:
  - Recognition of conditions/events that allow fraud to go undetected

- Gov't personnel performing proper checks, and asking the right questions will greatly help prevent fraud
  - Puts contractors on notice that gov't personnel (working their contracts day-to-day are "fraud detection savvy"

WHO COMMITS FRAUD?

- ***People do!***
- **They could be:**
  - **Employees or Management**
  - **Contractor Personnel or Government Employees**
  - **Military or Civilian**

- **Companies can be held responsible for actions of their employees and managers**

Fraud & Corruption Are Real

Develop America's Airmen Today ... for Tomorro

Major Procurement Frauds (as of 9/24/07)

Far More Than Just Contracting Officers

Service	Percentage of Contracting Personnel in Iraq/Kuwait	Open Fraud Investigations
Air Force	70%	1
Army	28%	77
Navy	2 %	0
Total	100%	78

Army Employees Involved	
Contracting Officers	18
Contracting Officer Representatives	21
Other	57
Total	96

Army Employees Involved		Active	Reserve	National Guard	Retired
Army Officers	50	27	12	8	3
Army Enlisted	33	19	8	6	0
Dept of Army Civilians	13	83			
Total	96				

Source: Data provided September 21, 2007, to the Commission by U.S. Army Criminal Investigation Command, Major Procurement Fraud Unit, and subsequently updated on September 24, 2007

Common Offenses

- Bribery
- Making a False Statement or Claim
- Conspiracy to Defraud
- Accepting Illegal Gratuities
- Insufficient Delivery of Contracted Items
- Failure to Meet Specifications

Bribery

- Contractor offers money for preferential treatment during award process.
- Contracting Official accepts money, gifts or favors from a bidder in return for awarding a Government contract.
- An employee in the Contracting Office, who has no actual authority to award contracts, promises to ensure award a contract to a bidder if the bidder pays the employee money.

False Statement or Claim

- COR falsifies DD250 for receipt of goods or services

- Contractor submits a claim for a progress payment indicating a specified amount of work had been completed on a project, when in fact the project is behind schedule and the work has not been completed.

- Individual signs contract and finance documents claiming to be a representative of a contractor, thus allowing the individual to receive unauthorized payments on numerous contracts.

Conspiracy To Defraud

- COR submits false receiving documents on behalf of a Contractor indicating a specific amount of materials on a contract had been received when in fact the materials were never delivered.

- Individual contacts a Contractor and requests they prepare several different proposals for one individual contract. The individual specifically asks the Contractor to prepare one in the “individuals name”, one in the “contractors name”, and to “invent” another one. The Contractor then prepares the proposals as requested.

- A Government representative instructs a contractor to submit invoices for materials which have not been received on a contract. The Contractor then submits the invoices and receives payment

Accepting Illegal Gratuities

- COR accepts manicures, spa treatments, and other personal benefits from the contractor.
- Contractor asks only for smooth processing of their invoices.
- Even if the COR is not favorably influenced by this "generous" act on the part of the contractor, the COR has accepted an illegal gratuity.
- FAR 3.101-2 - No Government employee may solicit or accept any gratuity, gift, favor, entertainment, or loan from a prohibit source

Insufficient Delivery of Contracted Items

- Contractor under two separate contracts to deliver 10,000 ballistic vests and 540 ballistic vests, only delivers 10,000 vests.

- Contractor pulls 540 vests from the first shipment and submits them on the second contract.

- Contractor ultimately receives payment for both contracts and the Government is short 540 vests.

Failure to Meet Specifications

- Contractor increases profits by providing goods or services that do not meet contract specifications
  - Such action is often difficult to detect because materials omitted from end products are not readily identifiable

- *Example -- A contractor uses one coat of paint instead of two; uses watered loads of concrete: installs inferior memory chips in computers; or uses inferior automobile replacement parts*

Fraud Indicators

Indicators of Bribery, Kickbacks and Gratuities

- Contractor offers monetary payment or other compensation in exchange for favorable consideration in contract award or oversight
  - *REALLY* obvious red flag
- Frequent and apparently unnecessary visits by contractor to purchasers
- Contractor entertainment of purchasers
- Shoptalk/Water Cooler discussions of abnormally close Contractor/Purchaser relationships

Indicators of Bribery, Kickbacks and Gratuities

- Frequent use of Contractor despite quality, cost or performance problems
- Excessive use of a single contractor in a competitive field
- Unexplained or unnecessary disqualification of competitors
- Apparent excessive pricing for items or services supplied
- Apparent favoritism of contractor by purchaser

Billing Fraud Indicators

- Contractor bills costs that are not part of or required for contract performance
- Contractor makes little or no physical progress on the contract even though significant costs have been billed
- History of frequent invoice/voucher errors, poor documentation, & claiming unallowable costs
- Different typeface on an invoice
- Invoices for services that could/should not have been performed as claimed

Quality Control Fraud Indicators

- Altered Test Reports/Certifications
  - Minor discrepancies in typeface, “whited out” sections, handwritten portions of typed documents, other alterations
- “Pre-Signed” Certification or Receipt Forms
  - Indication that actual verification was not performed as these should not be signed until actual verification of facts have taken place

Quality Control Fraud Indicators

- Limited Government access to production and storage facilities
- Unwillingness to mark or seal in the presence of a Government Representative
- Major work schedule changes without notice
- Contractor efforts to hide records
- Poor reproduction of certifications, illegible or incomplete documentation
- Use of lesser skilled labor than originally anticipated
- Substitution of foreign parts for domestic items

Product Substitution Fraud

- Use of Inferior Quality Raw Materials
- Substitution of Products or Services
  - Counterfeit/non-qualified parts
  - Sale of surplus or used parts as new
  - Foreign made v. domestic products
  - Remarking/Repackaging
- False Certificates of Conformance
  - Provided by Contractor to Affirmatively State that the Product meets Contract Requ

Example of subtle differences between authentic and fake packaging

Your Actions

How Can You Help

YOU

are the first line of defense

What Should You Do?

- Understand Contract Requirements
- *Be alert for indications of fraud*
  - Recognize undisclosed non-conformances, defective or substituted items
  - Recognize irregularities

- Ask Questions
- Follow-up on Notices of Potentially Defective Products

How Can You Help

REPORT **suspicions of Procurement Fraud promptly!**

DO NOT *WAIT* FOR *PROOF*

Contact Your Procurement Fraud Advisor, Law Enforcement, Legal Office or contact a Fraud Hotline

How Fraud Gets Reported

- Reported by:
  - Contracting Personnel
  - COR/QAEs
  - Contractor Employee
  - Other DoD employees

- Reports are received by:
  - Army CID, AFSOI, or other Law Enforcement Agencies
  - Inspector General
  - Staff Judge Advocate
  - Installation Procurement Fraud Advisor
  - DoD Fraud, Waste & Abuse HOTLINE

Who To Call

- To speak to a local agent
  - DSN xxx-xxxx; SIPR xxx-xxxx
  - Enter email address
  - Enter email address

You may remain anonymous

Who To Call

Or…

- **DoD Fraud, Waste & Abuse HOTLINE:**
- **Phone: 1-800-424-9098**
  1-877-363-3348 (Iraq and Afghanistan)
- **Email: hotline@dodig.mil**
- **Web Address: www.dodig.mil/HOTLINE**

Report: Fraud, Waste, and Abuse
Defense Hotline
1-877-363-3348
Protect the Total Force
Military • Contractors • Civilians
Contact the Department of Defense Inspector General Hotline

Air Education and Training Command

"The First Command"

Recent Investigative Results

- **Ronald Wiseman –** In October 2006, Wiseman, a former DRMS area manager, was sentenced to 18 months confinement for violations of the Arms Export Control Act relative to his involvement in the illegal sale of numerous HMMWVs to foreign nationals from Camp Doha, Kuwait.
- **Kellogg, Brown, & Root –** In December 2006, Stephen Seamans, former KBR procurement manager, was sentenced to 12 months plus one day incarceration, three years supervised release and ordered to pay $380,130 in restitution. Seamans previously pled guilty to wire fraud and conspiracy to launder money related to two subcontracts valued at $21.8 million to KBR subcontractor, Mohammad Shabbir Khan, former Director of Operations, Tamimi Global Company.
- **John Rivard** – In October 2007, Rivard, a former Army Reservist, was sentenced to 10 years in prison for conspiracy, bribery, and money laundering in awarding government contracts in Iraq.
- **Jasmine International Trading** – barred in 2006 from getting new contracts. Two Army soldiers at Camp Arifjan Finance office court-martialed for taking $7,000 from Jasmine to process payments more quickly